

Outlook for Sales Tax Revenues

MARK MCMULLEN, DIRECTOR

The Great Recession Is Over...

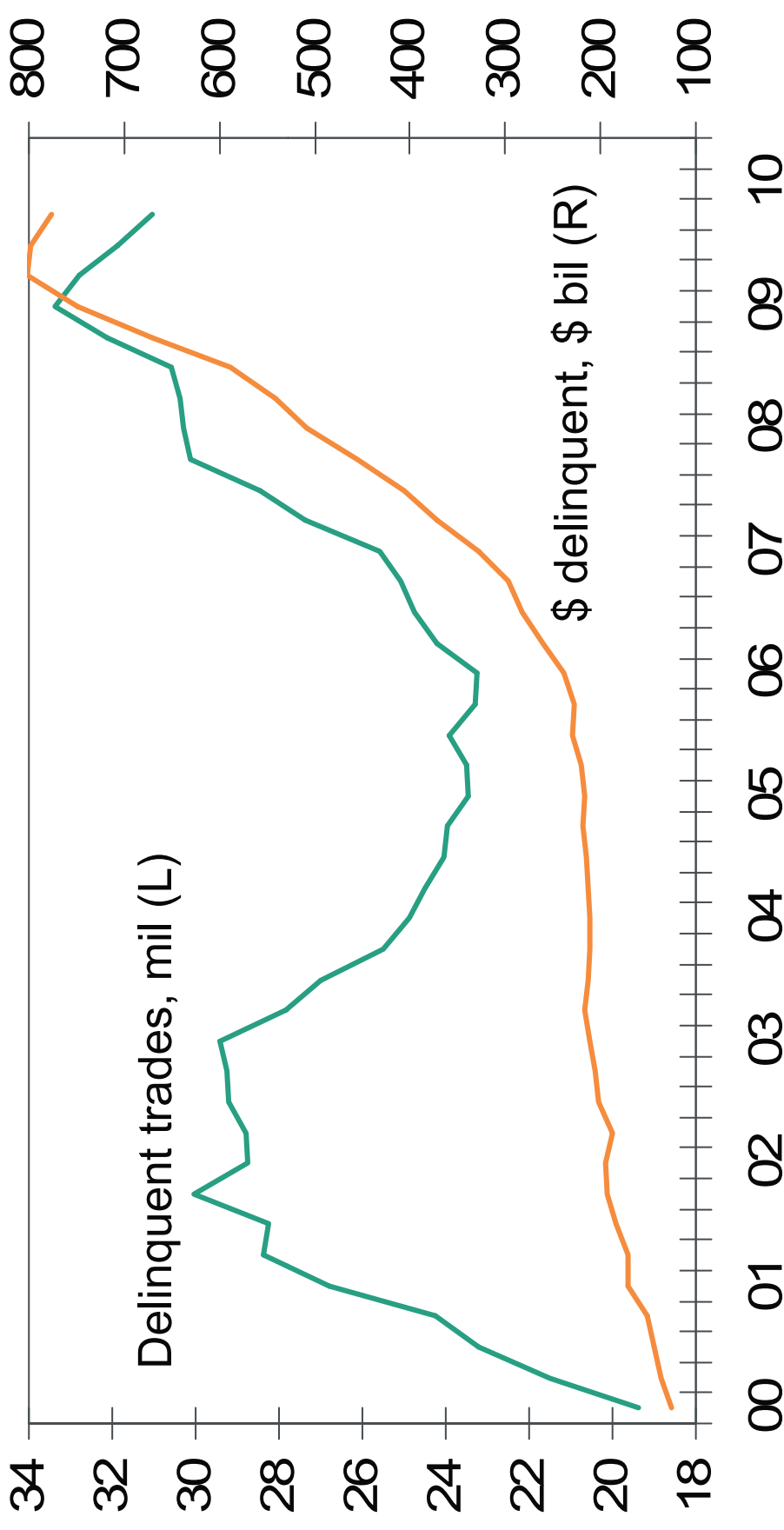
Recessions since World War II

Peak	Trough	Duration in Months			Peak-to-Trough % Change			Jobless Rate	
		Recession Peak to Trough	Expansion Trough to Peak		Real GDP	Industrial Production	Nonfarm Employment	Low	High
Dec-07	Aug-09	20	73		-3.9%	-16.7%	-6.2%	4.4%	10.4%
Mar-01	Nov-01	8	120		-0.4%	-6.3%	-2.0%	3.8%	6.3%
Jul-90	Mar-91	8	92		-1.3%	-4.3%	-1.5%	5.0%	7.8%
Jul-81	Nov-82	16	12		-2.9%	-9.5%	-3.1%	7.2%	10.8%
Jan-80	Jul-80	6	58		-2.2%	-6.2%	-1.3%	5.6%	7.8%
Nov-73	Mar-75	16	36		-3.1%	-14.8%	-2.7%	4.6%	9.0%
Dec-69	Nov-70	11	106		-1.0%	-5.8%	-1.4%	3.4%	6.1%
Apr-60	Feb-61	10	24		-1.3%	-6.2%	-2.3%	4.8%	7.1%
Aug-57	Apr-58	8	39		-3.8%	-12.7%	-4.4%	3.7%	7.5%
Jul-53	May-54	10	45		-2.7%	-9.0%	-3.3%	2.5%	6.1%
Nov-48	Oct-49	11	37		-1.7%	-8.6%	-5.1%	3.4%	7.9%
Average		10	57		-2.0%	-8.3%	-2.7%	4.4%	7.6%

Sources: NBER, BEA, FRB, BLS, Moody's Economy.com

....As Household Credit Conditions Turn

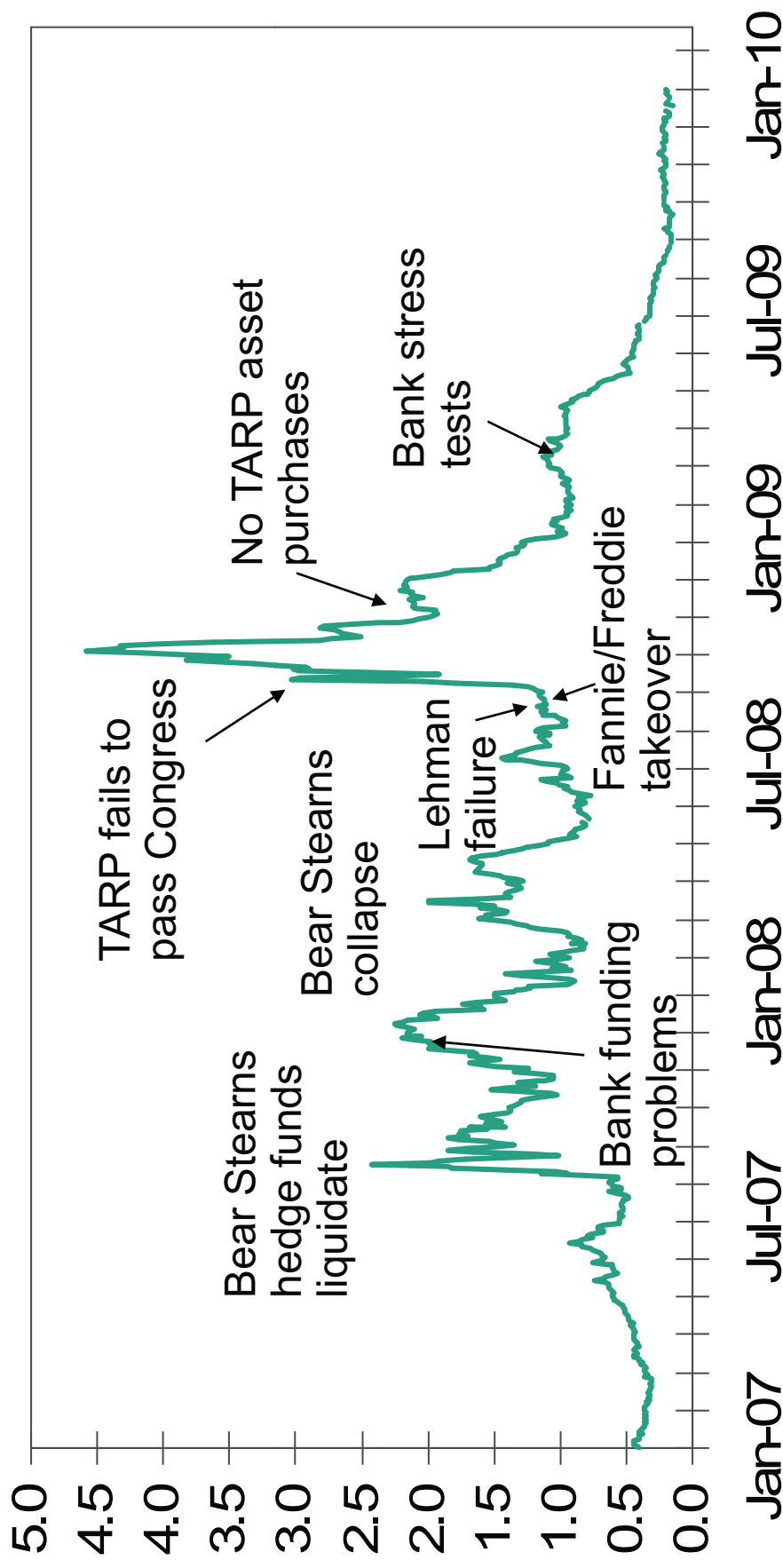
Delinquent consumer trades



Sources: Equifax, Moody's Economy.com

Policymakers Stabilize the Banking System...

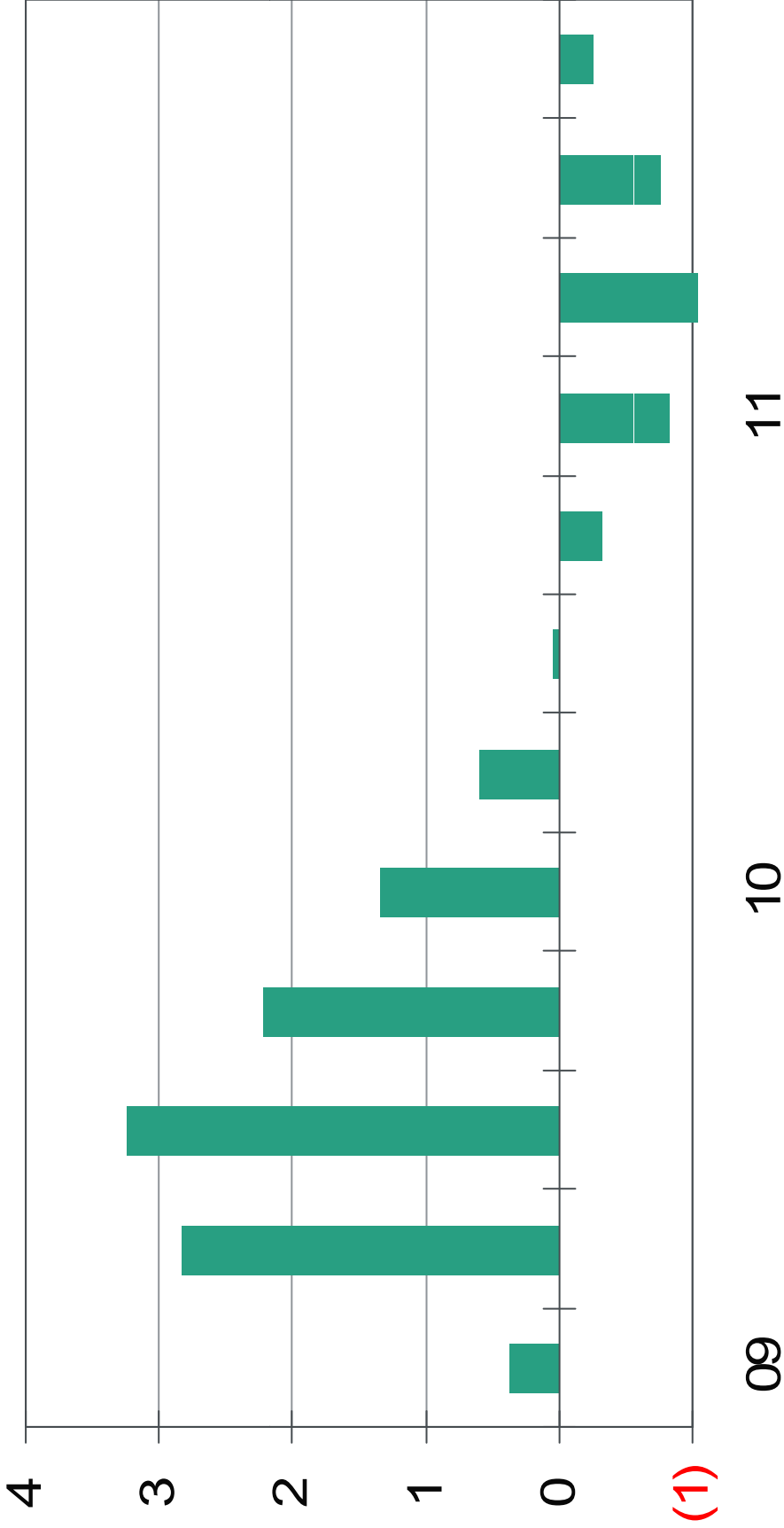
Difference between 3-mo Libor and Treasury bill yields



Sources: Federal Reserve Board, Moody's Economy.com

....And Fiscal Stimulus Provides a Vital Boost

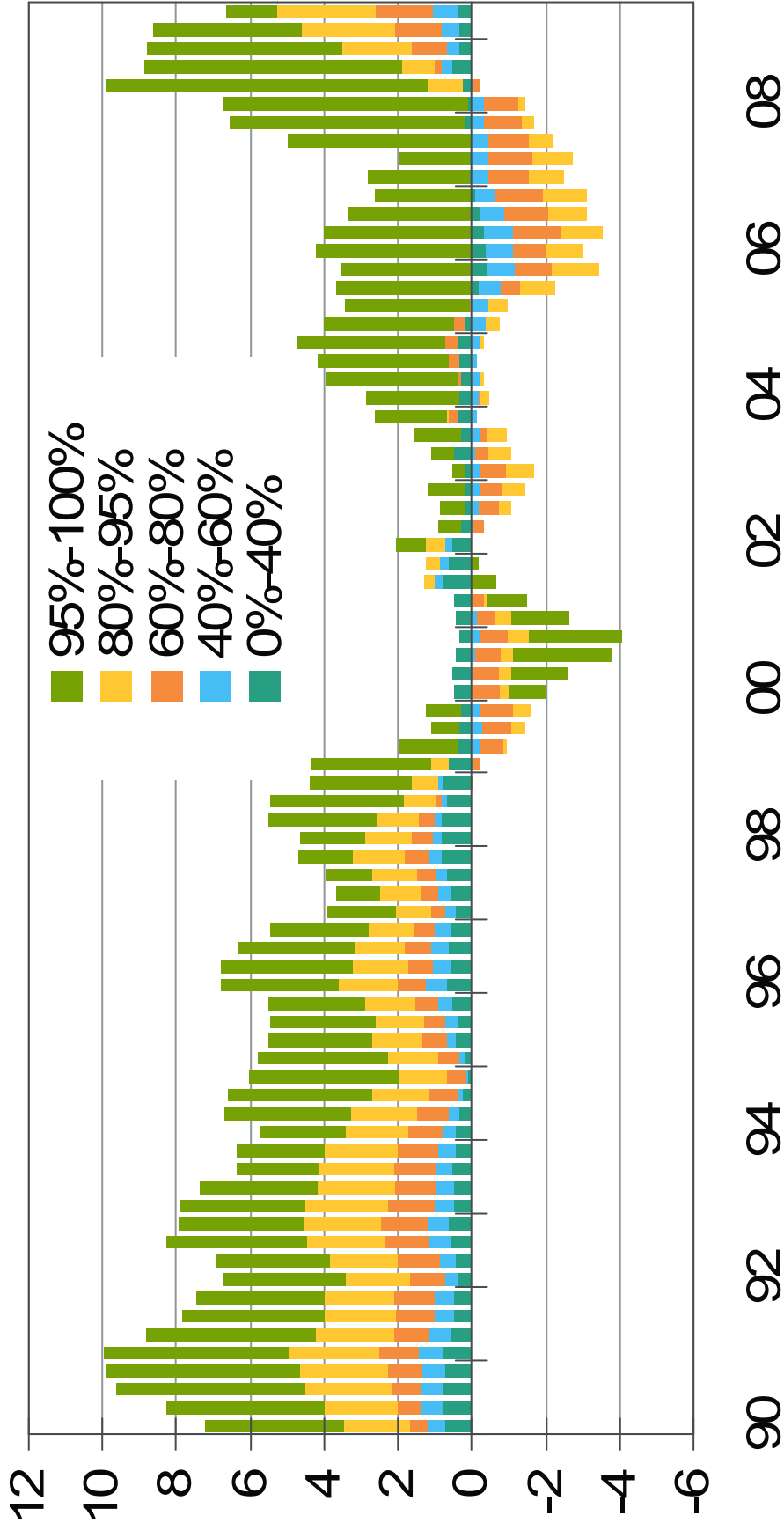
Contribution to real GDP growth, %



Source: Moody's Economy.com

U.S. Households Are Fixing Their Finances...

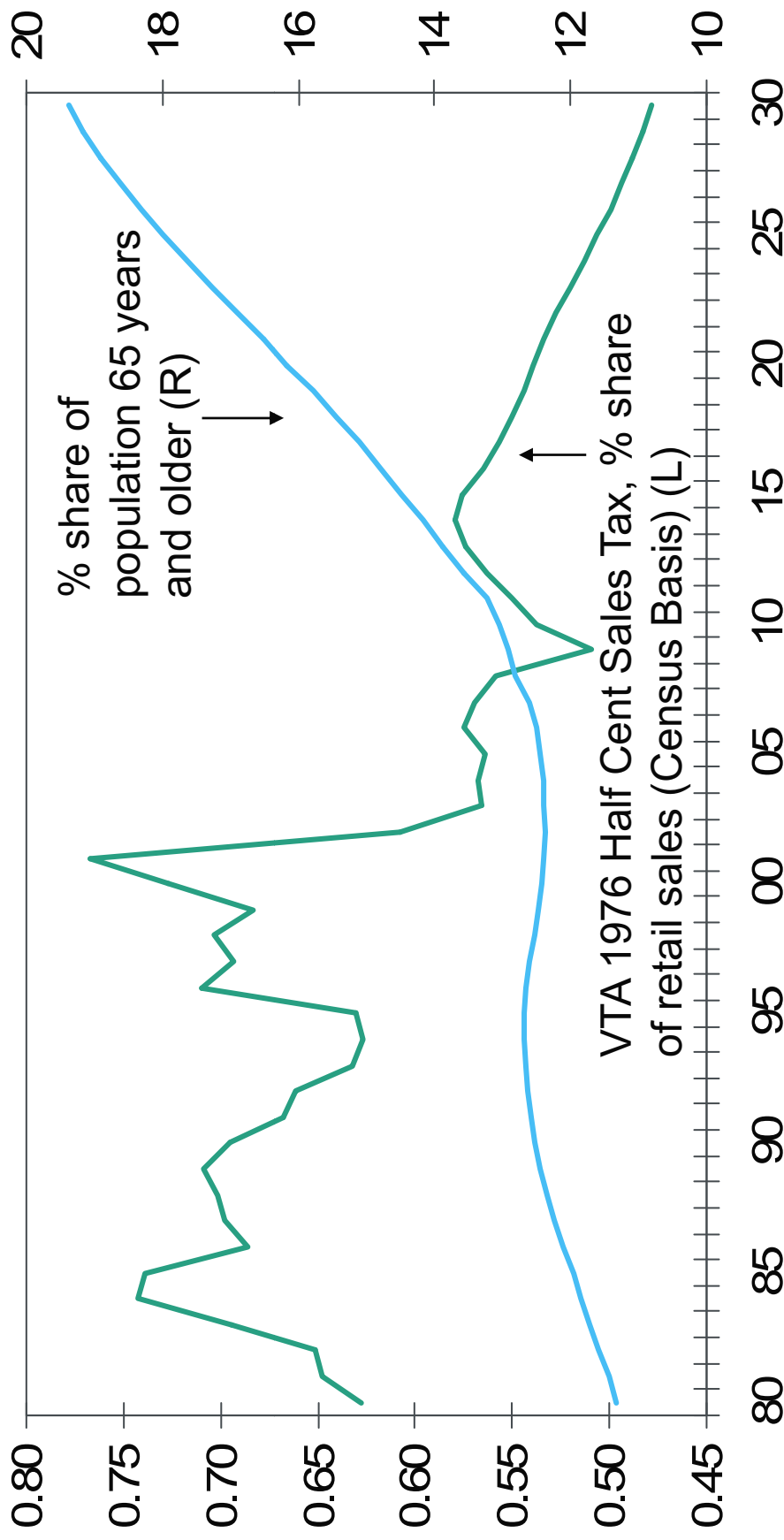
Contribution to personal saving rate, 4-qtr MA



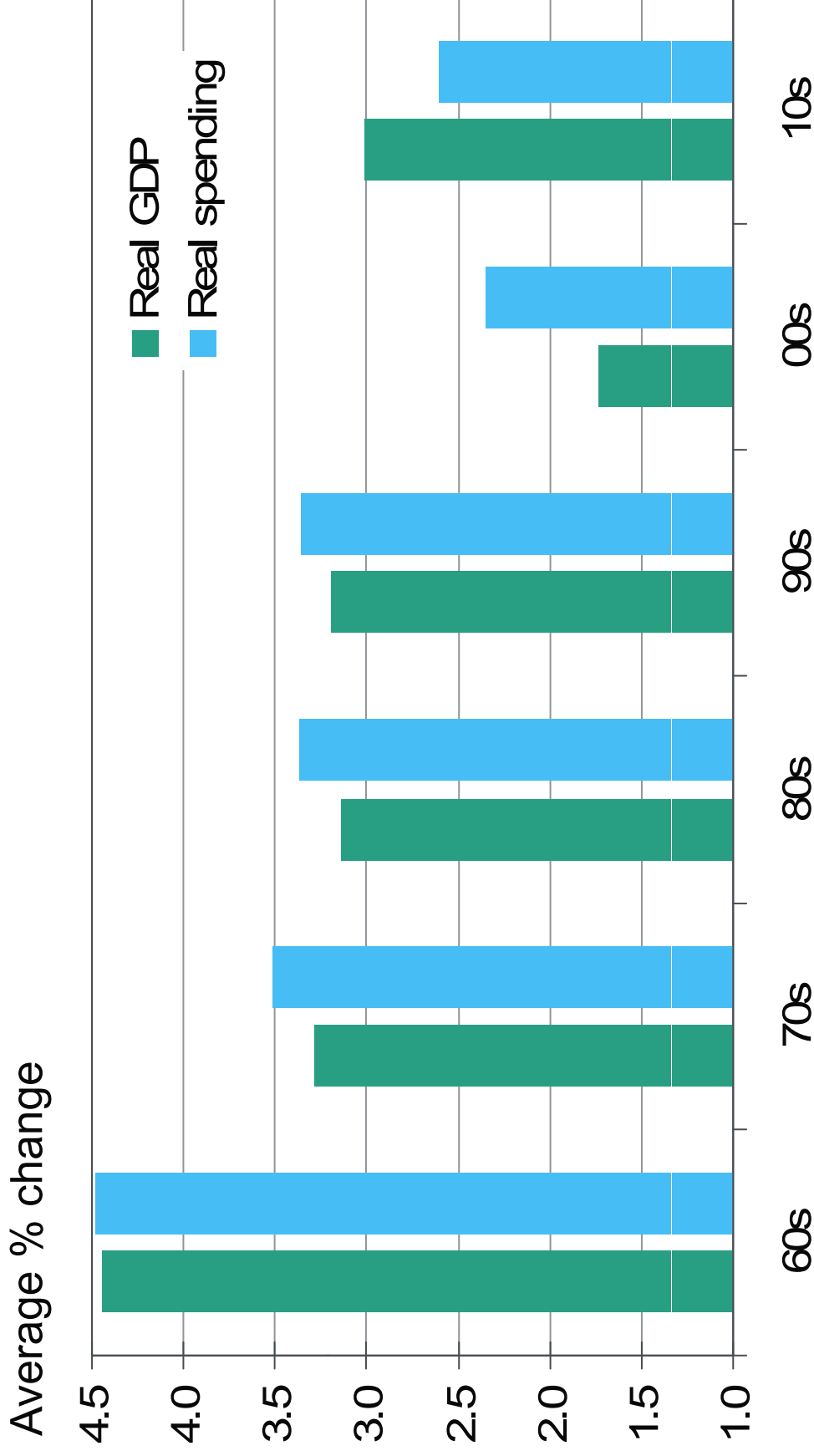
Source: Moody's Economy.com

...and Consumption Patterns Are Changing....

San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area



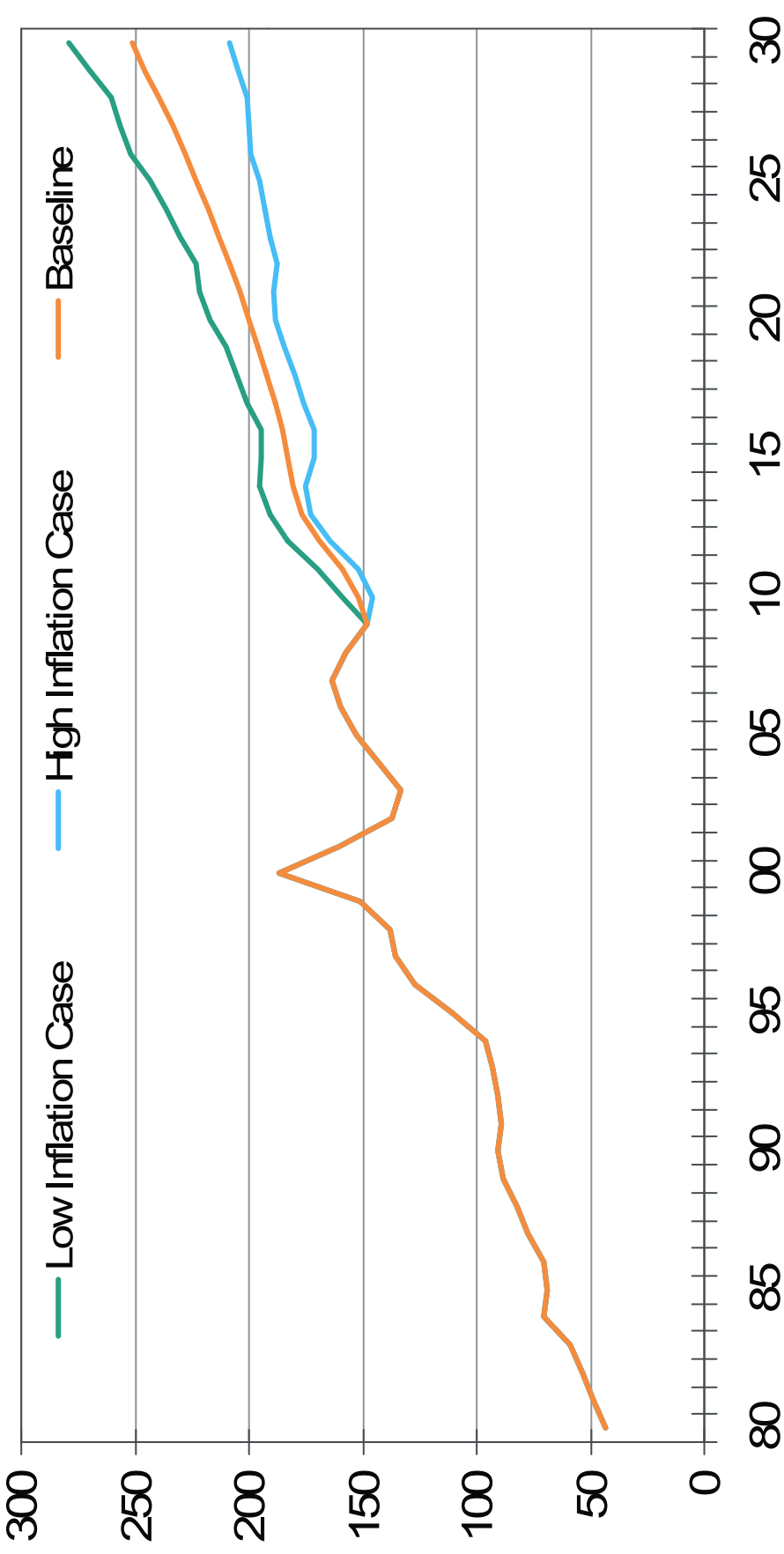
...So Spending Will Not Lead Economy



Sources: BEA, BLS, FRB, Fiserv

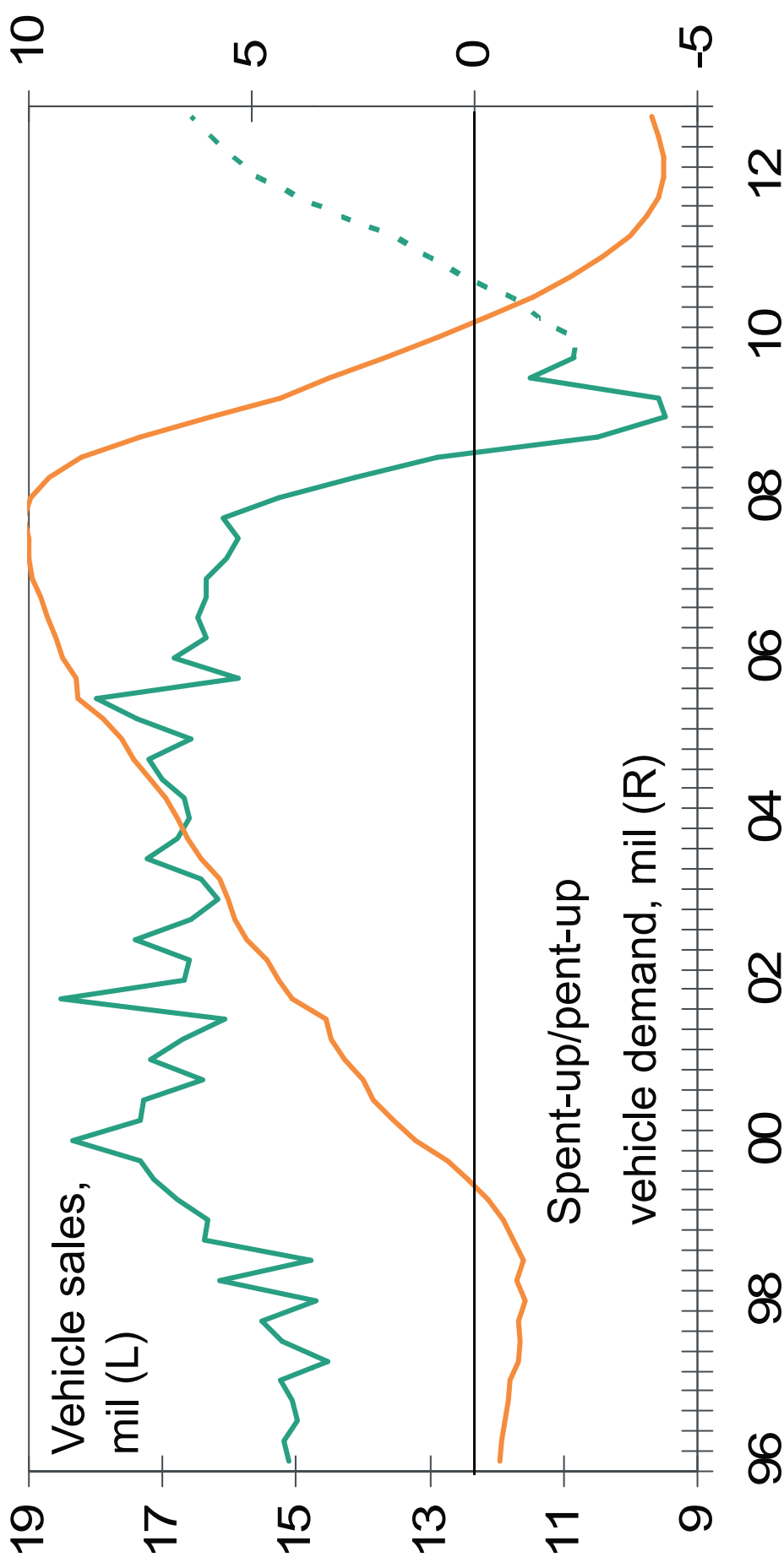
Sales Tax Collections Have Bottomed Out

1976 Half Cent Sales Tax revenues, fiscal years, \$ millions



Source: Moody's Economy.com

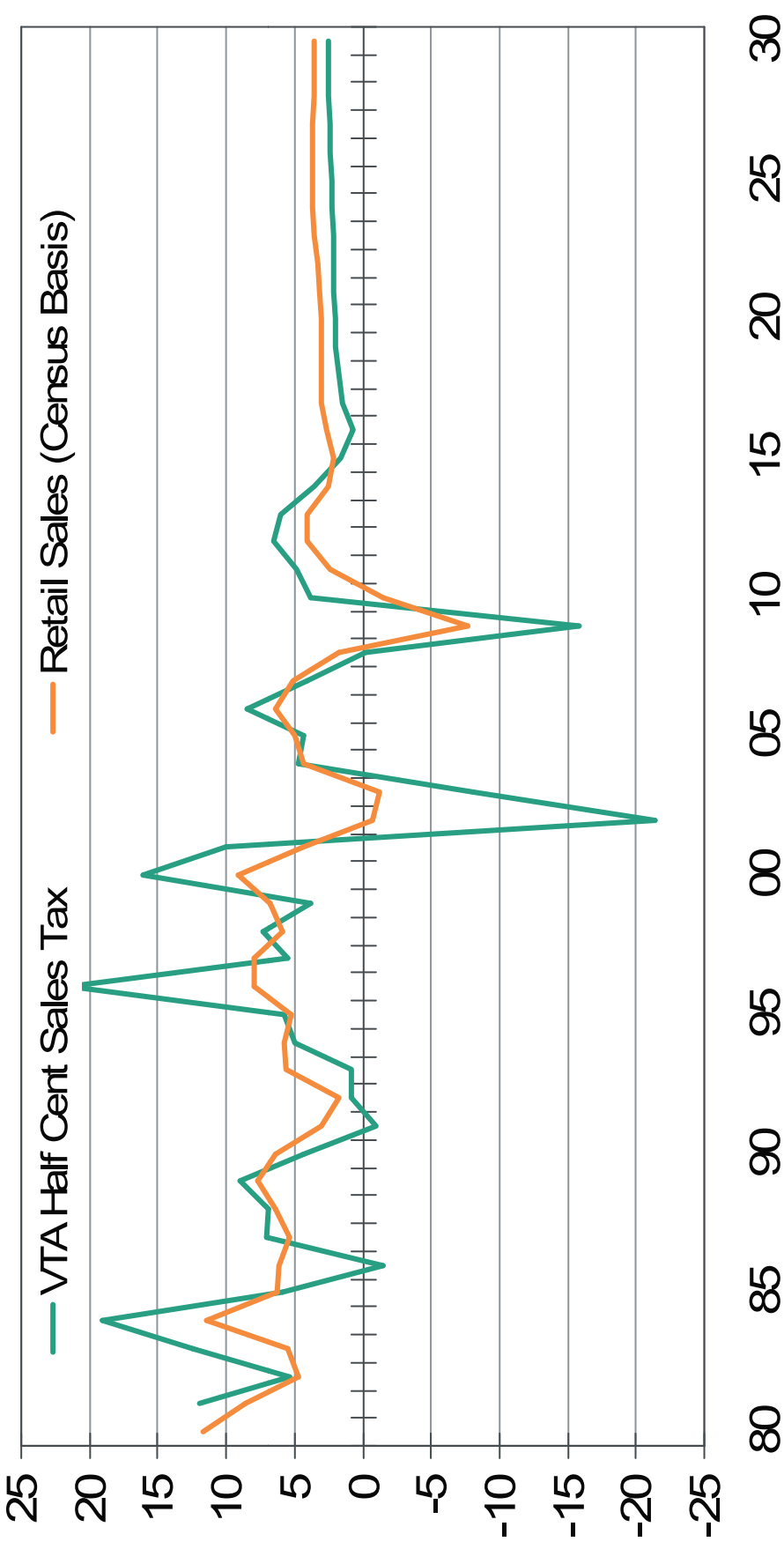
From Spent-Up to Pent-Up Demand



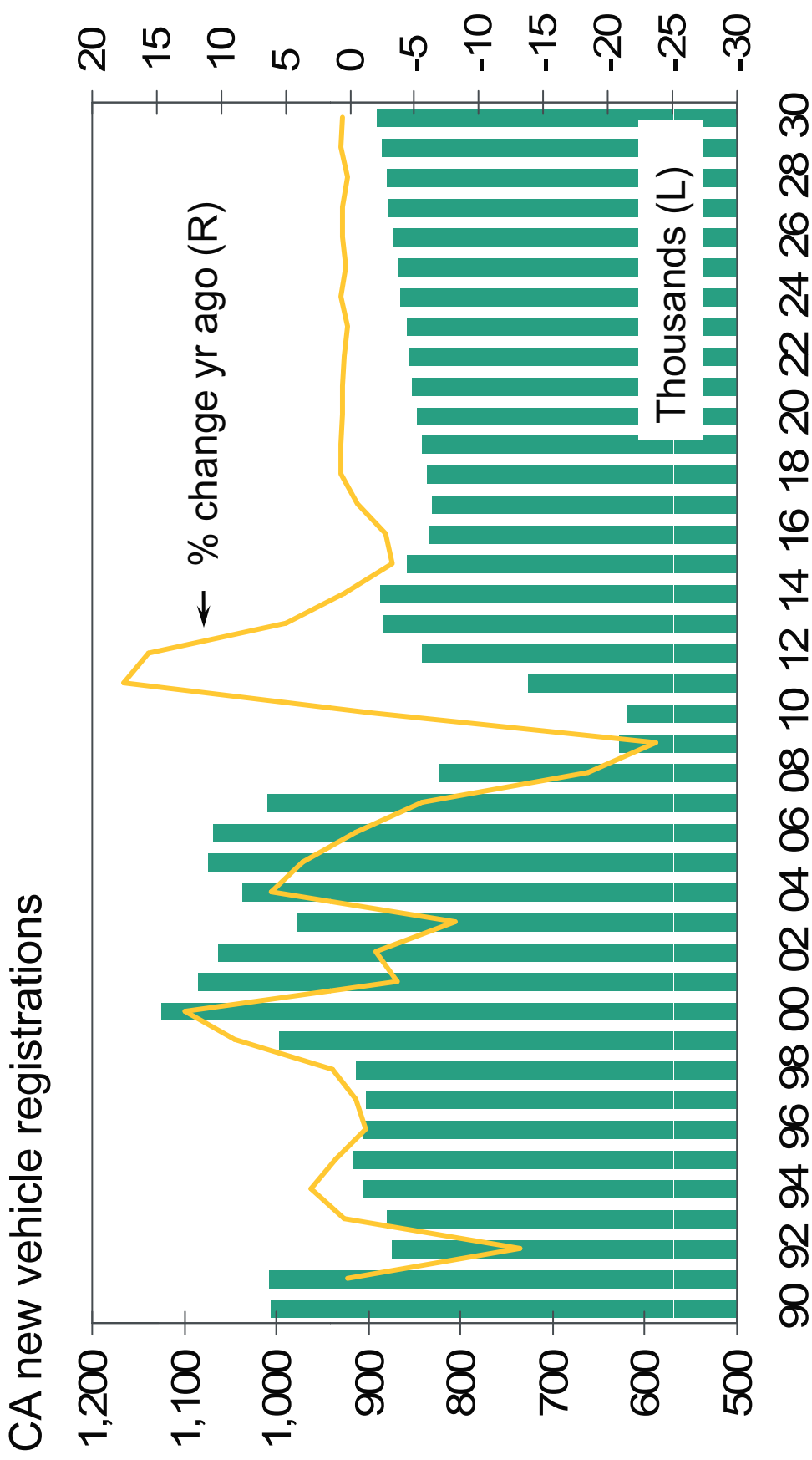
Sources: BLS, Moody's Economy.com

Little Growth Following the Recovery

% change year ago, fiscal years



Registration Fees: Fewer New Vehicles on the Road



Sources: Polk, Moody's Economy.com

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SAN JOSE

EMPLOYMENT GROWTH RANK

Best=1 Worst=392

2008-2010

298
4th quintile

2008-2013

220
3rd quintile

LIFE CYCLE PHASE

Growth

VITALITY

U.S.= 100% **96%**

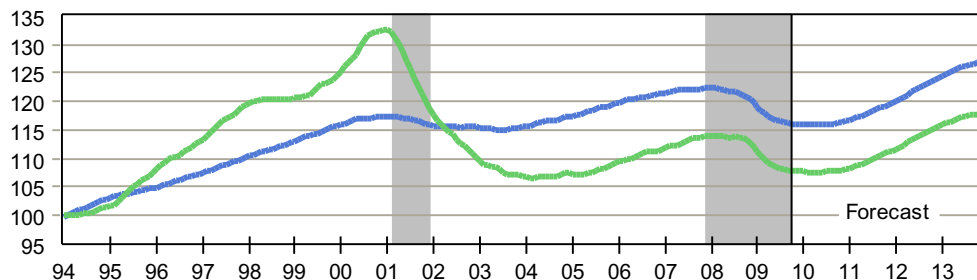
COST OF DOING BUSINESS

U.S.= 100% **122%**

COST OF LIVING

U.S.= 100% **164%**

RELATIVE EMPLOYMENT PERFORMANCE (1994=100)



DataBuffet® MSA code: MSAJ

— U.S. — SAJ

2002	2003	2004	2005	2006	2007	2008	INDICATORS	2009	2010	2011	2012	2013
92.5	92.3	95.7	105.7	113.3	120.7	118.4	Gross metro product (C\$B)	111.6	116.0	122.8	132.1	138.5
-7.9	-0.2	3.7	10.4	7.1	6.6	-1.9	% change	-5.8	3.9	5.9	7.5	4.9
917.2	870.3	862.0	869.9	891.2	911.2	915.2	Total employment (000)	877.2	868.8	884.8	916.3	944.5
-9.9	-5.1	-0.9	0.9	2.4	2.3	0.4	% change	-4.2	-0.9	1.8	3.6	3.1
8.4	8.4	6.5	5.4	4.6	4.8	6.1	Unemployment rate	11.4	12.6	12.1	10.1	8.7
-6.9	1.5	4.4	6.9	9.7	7.7	1.0	Personal income growth	-6.3	0.7	2.9	4.7	5.4
1,730.4	1,726.4	1,728.4	1,742.9	1,762.3	1,786.4	1,819.2	Population (000)	1,834.9	1,854.1	1,872.0	1,889.7	1,906.9
2,239	2,565	2,787	2,416	2,151	1,955	958	Single-family permits	582	797	1,353	1,744	1,734
2,382	4,538	2,705	3,320	3,999	2,239	2,532	Multifamily permits	283	615	1,060	1,228	1,216
543.2	551.1	623.1	735.2	774.0	833.3	677.4	Existing-home price (\$ths)	491.6	422.7	453.1	485.3	517.2
62,269	77,980	51,577	49,171	42,239	39,630	26,704	Mortgage originations (\$mil)	33,784	30,945	25,091	22,843	25,568
-35.0	-23.5	-14.8	-2.4	1.8	6.0	15.3	Net migration (000)	-2.8	0.1	-1.7	-2.5	-3.3
4,536	5,245	5,145	6,286	1,578	2,374	4,189	Personal bankruptcies	6,825	8,843	10,964	10,772	9,537

STRENGTHS & WEAKNESSES

STRENGTHS

- High concentration of tech and venture capital firms.
- Highly skilled workforce.
- Internet-related firms are experiencing growth amid growing demand.

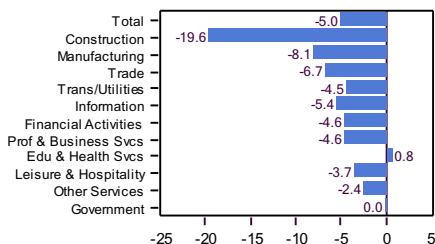
WEAKNESSES

- Cost of doing business remains high.
- Mortgage delinquencies and foreclosures are still deteriorating.

CURRENT EMPLOYMENT TRENDS

NOVEMBER 2009

% change yr ago, 3-mo MA



FORECAST RISKS

SHORT TERM

LONG TERM

RISK-ADJUSTED RETURN, '08-13 **-0.08%**

UPSIDE

- Federal stimulus in renewable energy and broadband supports tech firms.
- Tech rebound increases demand for business services such as accountants.

DOWNSIDE

- Defense procurement spending is stymied by federal spending constraints.
- Still rising mortgage delinquencies and foreclosures trigger more price drops.

ANALYSIS

Recent Performance. San Jose is beginning to transition from recession into recovery. Industrial production levels are higher than they were during the trough reached in the middle of the year. However, job losses continue, led by weaknesses in food and tech manufacturing and the continued contraction of residential and commercial construction. Tech firms are offsetting some job losses with the continued hiring of computer systems design workers.

The housing market has registered some improvements—house prices have increased since the beginning of 2009, and sales levels are higher than a year earlier. However, weaknesses are still visible in the form of growing late-stage mortgage delinquencies and foreclosures.

Tech. Growth in SAJ's sizable tech industry will spill over into other industries and help the metro area to enter into a recovery in 2010. Currently, tech companies in Silicon Valley are directly hiring workers for new Internet-based platforms for corporate databases and consumer games. Tech companies are also increasing demand for temporary workers for both technical and administrative positions—a positive signal of future hiring intentions.

Improvements in financial markets in 2010 will help SAJ tech industries grow, although in new directions from the recent past. Venture capital investments in the metro area have increased since the second quarter of 2009 according to the PWC/NVCA/MoneyTree Report. Recent investments have been geared towards renewable energy technologies and networking equipment and away from software design.

Office space. SAJ's office markets will take longer to recover than its tech industries. Tech firms were quick to jettison excess workers and office space during the recession in order to maintain profitability. The contraction of demand beginning in the first half of 2008 coincided with the completion of several new office buildings. As a result, office vacancies have soared to above 22%—the highest in the Bay Area.

The initial recovery of office-using employment in 2010 will help to slowly revive demand for construction. While the oversupply of office buildings will dampen interest in new construction in the near term, SAJ will avoid the large-scale loss of office-using employment that it experienced at the end of the tech boom of the 1990s. The most recent peak-to-trough loss of office-using employment is forecast to total 5% by Moody's Economy.com—a fifth of the loss registered during the prior recession.

Housing. The housing market in SAJ will backpedal in 2010 from recent improvements. Continued job losses and the growing volume of late-stage mortgage delinquencies will increase the number of distress house sales in early 2010. As a result, house prices will fall by 20% from current levels by the middle of next year.

Renewed house price depreciation in the near term will increase house sales. Rising prices slowed the rate of growth of house sales in the second half of 2009. The near-term boost in housing affordability will help previously discouraged homebuyers, as will the recently extended and expanded federal tax credit for first-time buyers.

San Jose's economy will slowly begin to emerge from recession in 2010 before growing at a faster rate in 2011. Job losses will linger into the first half of 2010, as will new declines in house prices. Longer term, SAJ's cluster of leading technology companies, its ability to create innovative new companies, and its highly educated population will remain major boosts for the metropolitan area. High costs will act as a drag on growth, keeping SAJ's performance average at best.

Eduardo J. Martinez
December 2009

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Cisco Systems, Inc.	17,200
Stanford University Hospital, Linear Accelerator	16,600
Stanford University	9,821
Lockheed Martin Corporation	8,000
Intel Corporation	6,720
IBM Corporation	6,650
San Jose State University	5,727
Santa Clara Valley Medical Center	4,063
Applied Materials, Inc.	4,000
Yahoo, Inc.	4,000
Kaiser Permanente	3,696
Sun Microsystems, Inc.	3,500
eBay, Inc.	3,010
Fujitsu America, Inc.	3,000
Google, Inc.	2,882
Hitachi America Ltd.	2,800
Symantec Corporation	2,542
VMware, Inc.	2,500
Xilinx, Inc.	2,440
Network Appliances, Inc.	2,324

Sources: San Francisco Business Times, 2008 and San Jose Business Journal Book of Lists, 2008

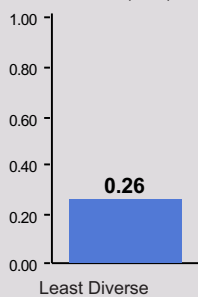
PUBLIC

Federal	11,009
State	7,481
Local	79,349

2008

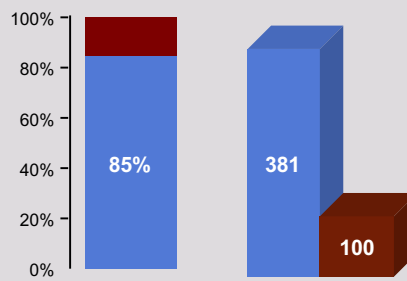
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

Due to U.S. fluctuations Relative to U.S.



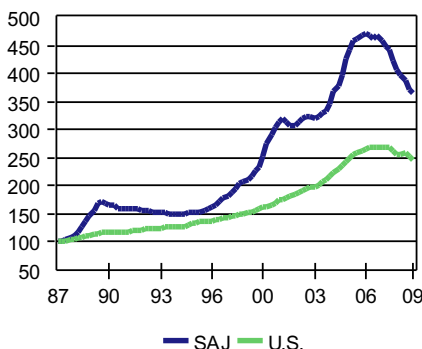
■ Not due to U.S. ■ Due to U.S. ■ SAJ ■ U.S.

COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SAJ	CA	U.S.	SAJ	CA	U.S.
Mining	0.0%	0.2%	0.5%	\$73,176	\$90,172	\$93,330
Construction	4.8%	5.2%	5.3%	\$67,239	\$67,561	\$52,869
Manufacturing	18.4%	9.5%	9.8%	\$166,389	\$82,641	\$68,860
Durable	92.3%	63.2%	63.1%	nd	\$91,847	\$70,136
Nondurable	7.7%	36.8%	36.9%	nd	\$67,055	\$66,651
Transportation/Utilities	1.5%	3.4%	3.7%	\$182,671	\$62,093	\$57,176
Wholesale Trade	4.4%	4.7%	4.4%	\$117,619	\$75,911	\$72,229
Retail Trade	9.2%	11.0%	11.2%	\$44,970	\$37,009	\$30,169
Information	4.6%	3.2%	2.2%	\$200,050	\$103,049	\$85,435
Financial Activities	3.8%	5.7%	5.9%	\$45,566	\$53,324	\$51,702
Prof. and Bus. Services	19.5%	15.0%	13.0%	\$91,640	\$62,468	\$56,434
Educ. and Health Services	11.7%	11.5%	13.8%	\$62,384	\$51,575	\$45,677
Leisure and Hosp. Services	8.5%	10.5%	9.8%	\$25,636	\$28,355	\$23,049
Other Services	2.8%	3.4%	4.0%	\$29,993	\$36,112	\$32,271
Government	10.7%	16.8%	16.4%	\$76,735	\$70,829	\$60,777

Sources: Percent of total employment — Moody's Economy.com & BLS, 2008; Average annual earnings — BEA, 2007

HOUSE PRICES



Source: FHFA, 1987Q1=100, NSA

CREDIT QUALITY

MOODY'S RATING **Aa2** COUNTY

LEADING INDUSTRIES

NAICS INDUSTRY EMPLOYEES (000)

GVSL State & Local Government	86.8
5415 Computer Systems Design and Related Svcs.	51.0
3344 Semi. & Other Elect. Component Manuf.	47.1
3341 Computer and Peripheral Equipment Manuf.	36.9
7221 Full-Service Restaurants	29.5
7222 Limited-Service Eating Places	24.2
6221 General Medical and Surgical Hospitals	23.4
5613 Employment Services	22.1
6113 Colleges, Universities & Professional Schools	21.6
5417 Scientific Research and Development Services	20.1
3345 Nav., Meas., Electromed. & Ctrl. Inst. Manuf.	18.2
5617 Services to Buildings and Dwellings	15.2
5191 Other Information Services	14.9
4451 Grocery Stores	14.1
4234 Prof. & Comm. Equip. & Supp. Merch. Whlsrs.	13.8

High-tech employment	228.9
As % of total employment	24.5

Sources: BLS, Moody's Economy.com, 2008

MIGRATION FLOWS

INTO SAN JOSE, CA NUMBER OF MIGRANTS

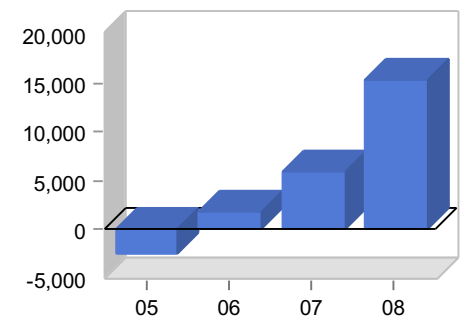
Oakland, CA	8,000
San Francisco, CA	7,979
Los Angeles, CA	3,224
Sacramento, CA	2,383
Stockton, CA	2,377
Modesto, CA	1,738
Santa Cruz, CA	1,678
Merced, CA	1,645
San Diego, CA	1,540
Salinas, CA	1,251
Total In-migration	63,406

FROM SAN JOSE, CA

Oakland, CA	9,984
San Francisco, CA	8,615
Sacramento, CA	3,073
Los Angeles, CA	2,424
Stockton, CA	2,402
Santa Cruz, CA	1,663
San Diego, CA	1,471
Merced, CA	1,420
Modesto, CA	1,389
Salinas, CA	1,158
Total Out-migration	63,393

Net Migration **13**

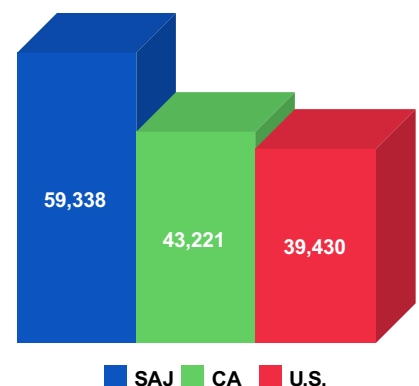
Net Migration, SAJ



	2005	2006	2007	2008
Domestic	-22,154	-17,797	-11,903	-2,625
Foreign	19,728	19,610	17,882	17,905
Total	-2,426	1,813	5,979	15,280

Sources: IRS (top), 2008; Census Bureau, 2008

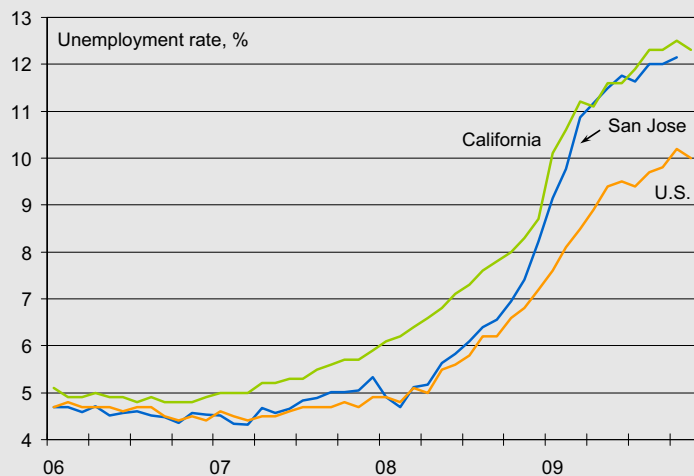
PER CAPITA INCOME



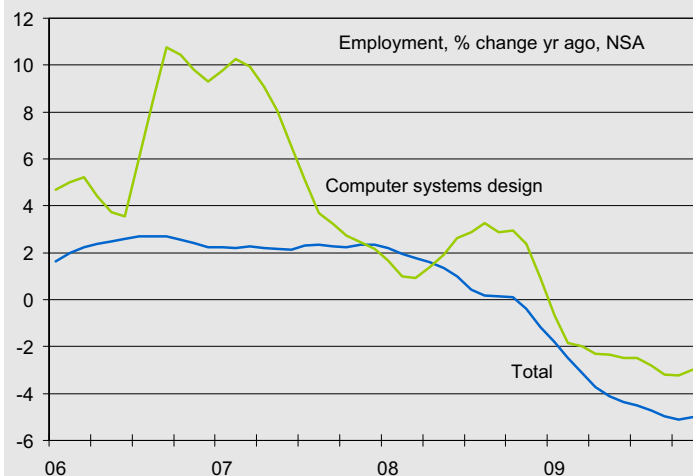
■ SAJ ■ CA ■ U.S.

Source: Bureau of Economic Analysis, 2007

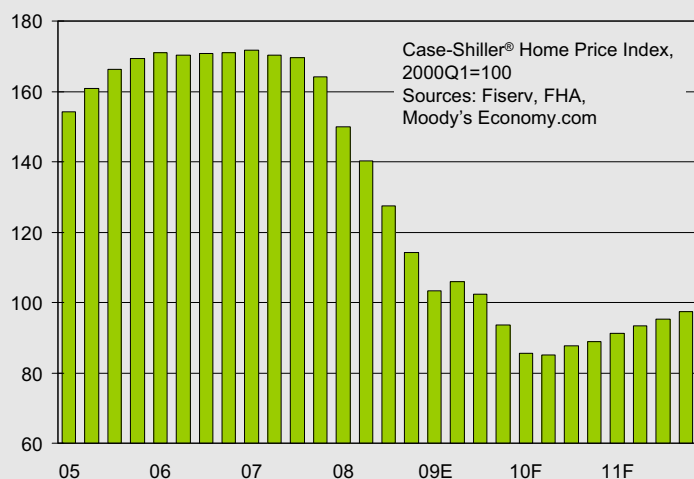
Labor Market Lags Initial Signs of Recovery



San Jose Internet Firms Avoid Larger Job Losses

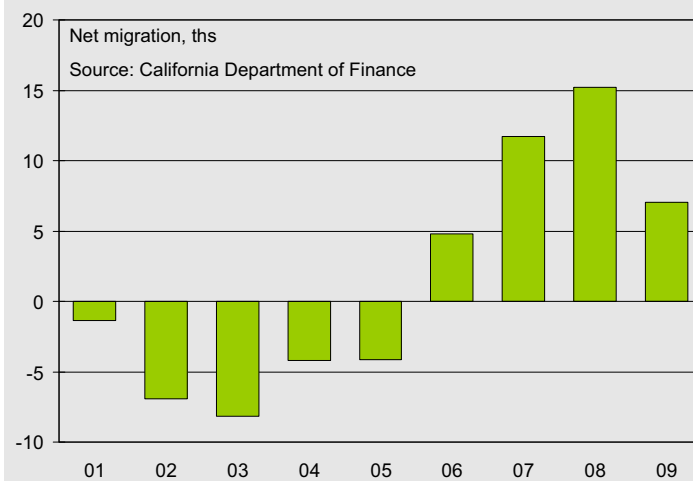


Foreclosures Will Push Down San Jose Prices Again

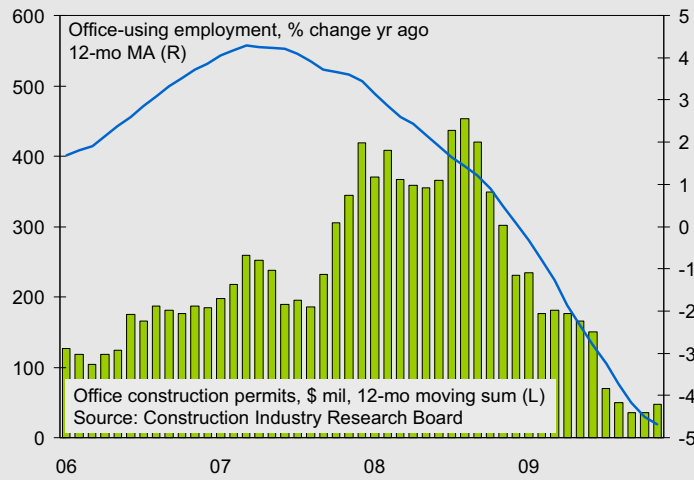


SAJ's internet-related firms will be among the first companies to add workers during the initial stages of the recovery. Social networking leader Facebook Inc. will triple its office space within SAJ next year in order to accommodate its growing number of workers and new business ventures. Search engine leader Google Inc. is actively acquiring smaller tech companies in Silicon Valley in search of new internet-based data sharing technologies. This growth will fuel the need for computer engineers and help to create a floor for the currently depressed office market.

San Jose Avoids Outmigration of the Tech Bust Years



Office Building Construction Slows in Face of Falling Demand



SAJ will avoid a repeat of the earlier outmigration that occurred at the end of the tech boom. The housing-related makeup of the most recent recession is softening the demographic impact for SAJ. After reaching its peak in 2000, employment fell by 20% through 2004. The peak-to-trough drop through 2010 is forecast by Moody's Economy.com to be only 6%. The relative strength of tech companies in Silicon Valley and the absence of near-term job opportunities in hard-hit housing metro areas will act as a strong retention for skilled workers in SAJ.

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